



City of Rockville

MEMORANDUM

June 11, 2010

TO: Scott Ullery, City Manager

FROM: Gavin Cohen, Director of Finance

SUBJECT: RedGate Business Plan (Plan)

Background

This memo serves as an update to the March 6, 2009 memo on the RedGate golf course Business Plan.

As you are aware, RedGate started losing money in FY 2000. Prior to that RedGate generated sufficient revenues to cover all of its costs. After cumulative losses from FY 2000 – FY 2005 of over \$1 million (\$1,127,164), staff undertook a comprehensive Financial Review (Review) that was adopted by the Mayor and Council on March 27, 2006. Following this Review, staff presented the Mayor and Council with the Plan that was adopted by the Mayor and Council on May 22, 2006. An important part of any plan is the monitoring and reporting on whether the results projected and anticipated are being achieved, and it became clear to staff two years into the Plan that it was not meeting its measures of success, and that a different approach should be considered. Staff is concerned that we will get to the end of the Plan period and find ourselves with an accumulated deficit reaching approximately \$2.3 million at the end of FY 2011, with no recourse other than to obtain the funds from the City's General Fund with its concomitant impact on general taxpayer funded programs and services.

Measures of Success

It is important to keep in mind that the Mayor and Council provided all of the resources requested as part of the Plan. This included a one-time grant of \$372,500 for capital improvements, an increase in resources for commodities and marketing of \$20,000 and \$27,500 respectively, and a 50% reduction in the City's administrative fee totaling \$540,350 from FY 2007 through FY 2011. The total taxpayer resources approved by the Mayor and Council for RedGate over the five year Plan is \$960,350.

The Plan defined four measures of success:

- increasing rounds played,
- increasing dollars per round,
- turning annual deficits into annual surpluses, and
- a negative cash balance of (\$323,923) in FY 2011.

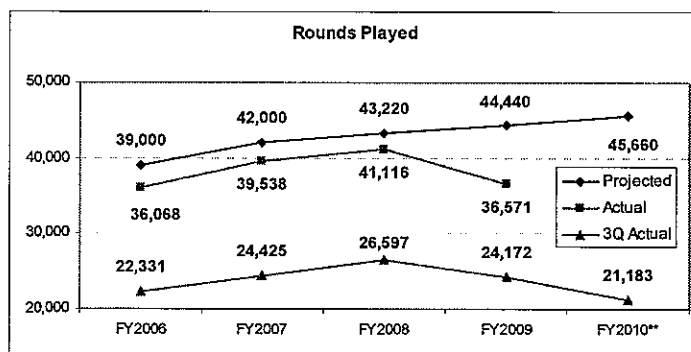
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Rounds Played*

"Rounds played increase to 42,000 in FY 2007 and climb to 46,880 by FY 2011."

"Success is defined in terms of steady, feasible progress in increasing rounds played. An average increase of 1,220 rounds per year will turn around annual deficits to annual surpluses after three years."



	FY2006	FY2007	FY2008	FY2009	FY2010**
Projected	39,000	42,000	43,220	44,440	45,660
Actual	36,068	39,538	41,116	36,571	21,183
Rounds Under Target	(2,932)	(2,462)	(2,104)	(7,869)	(24,477)

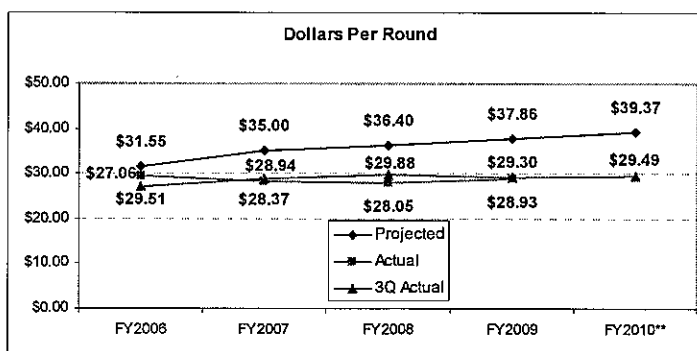
*Business Plan projections versus actual reported rounds from RedGate Staff.

**FY 2010 Actual as of 3/31/10.

The data above reflects that to date an average increase of over 1,220 has not been achieved, and the total rounds are below the projected levels for each year of the Plan.

Dollars Per Round*

"Continue to increase average dollars per round...."



	FY2006	FY2007	FY2008	FY2009	FY2010**
Projected	\$31.55	\$35.00	\$36.40	\$37.86	\$39.37
Actual	\$29.51	\$28.37	\$28.05	\$28.93	\$29.49
Difference	(\$2.04)	(\$6.63)	(\$8.35)	(\$8.93)	(\$9.88)

*Combined Green Fees and Cart Rentals divided by Rounds Played.

**FY 2010 Actual as of 3/31/10.

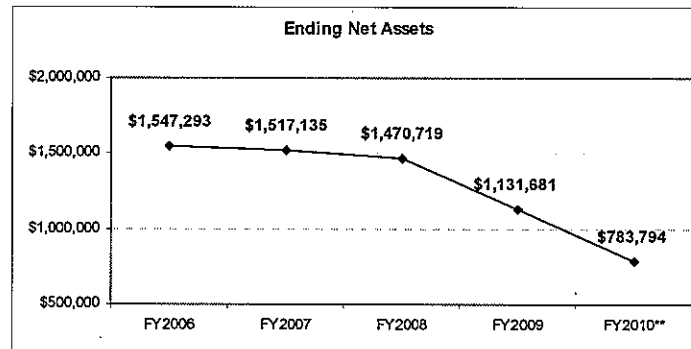
The data above reflects that dollars per round is significantly below the Plan.

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Net Assets*

"RedGate begins operating "in the black" beginning in FY 2009 and generates growing annual net income each year thereafter." "Beginning in FY 2009 RedGate will again be operating annually "in the black.""

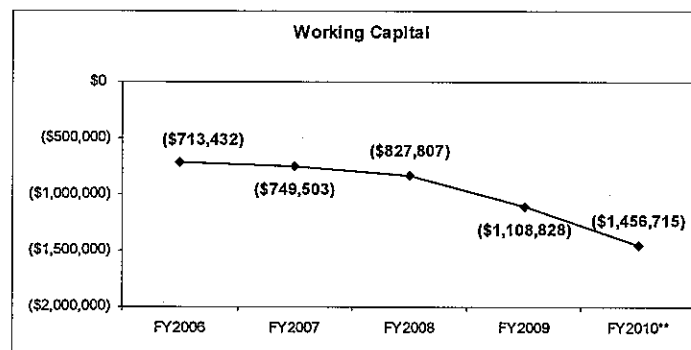


	FY2006	FY2007	FY2008	FY2009	FY2010**
Net Assets Begin.	\$1,656,984	\$1,547,293	\$1,517,135	\$1,470,719	\$1,131,681
Net Income (loss)	(\$109,691)	(\$30,158)	(\$46,416)	(\$339,038)	(\$347,887)
Net Assets Ending	\$1,547,293	\$1,517,135	\$1,470,719	\$1,131,681	\$783,794

*FY 2006 – FY 2009 actuals taken from the City's CAFR. FY 2010 unaudited actuals taken from AMS Financial System.

**FY 2010 Actual as of 3/31/10.

The data above reflects that RedGate has not operated in the black the first three years of the Plan, and projections show that it will not operate in the black over the life of the Plan.

Fund Deficit*

	FY2006	FY2007	FY2008	FY2009	FY2010**
Working Capital.	(\$713,432)	(\$749,503)	(\$827,807)	(\$1,108,828)	(\$1,456,715)

*FY 2006 – FY 2009 actuals taken from the City's CAFR. FY 2010 unaudited actuals taken from AMS Financial System.

**FY 2010 Actual as of 3/31/10.

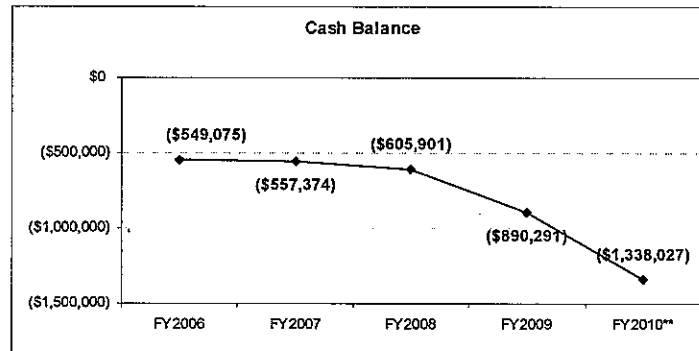
Working Capital is the City standard representing "accumulated deficit" which the data reflects is continuing to grow.

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Cash Balances*

"At the end of FY 2011, the fund has a negative cash balance of (\$323,933), but is in the position to erase the cash deficit within three fiscal years, hopefully sooner."



	FY2006	FY2007	FY2008	FY2009	FY2010**
Cash	(\$549,075)	(\$557,374)	(\$605,901)	(\$890,291)	(\$1,338,027)

*FY 2006 – FY 2009 actuals taken from the City's CAFR. FY 2010 unaudited actuals taken from AMS Financial System.

**FY 2010 Actual as of 3/31/10.

Data reflects that the negative cash balance continues to grow, and will not reach the goal by FY 2011.

Conclusion:

Staff conclusion remains unchanged. After three and ¾ years of the RedGate Plan, the data suggests that the Plan will not succeed, and a different course of action should be considered. Should the City not pursue the option of outsourcing the operations and maintenance, it is imperative for the City to start addressing the deficit. There is clearly a structural problem: too few golfers, and too many golf courses. RedGate cannot operate in the same manner that it has in the past and cover 100% of its costs.